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SUBJECT: DOT SECRETARY PETERS ATTENDS UPS CARGO HUB OPENING IN  
SHANGHAI

REF: SHANGHAI 220

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11. (U) Summary. During her April 11-12 visit to Shanghai  
(reftel), Transportation Secretary Mary Peters attended a  
signing ceremony for the creation of the United Parcel Service  
(UPS) International Air Hub at the Shanghai Pudong International  
Airport (PVG), with an initial investment of USD 20 million.  
The UPS facility was the first cargo hub established under the  
2004 U.S.-China Air Transport Agreement. With this agreement,  
UPS will benefit from increased flexibility in running its  
operations and Shanghai will continue its goal of positioning  
itself as a regional and international transportation center  
poised to meet the demands of the 2008 Olympics and 2010  
Shanghai World Expo. End summary.

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UPS Hub Announcement  
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12. (U) On April 12, Secretary Peters, joined by Shanghai Vice  
Mayor Yang Xiong, witnessed the signing of a contract by UPS  
Asia-Pacific President Ken Torok and Shanghai Airport Authority  
(SAA) Chairman Wu Nianzu to establish UPS's cargo hub at PVG.  
UPS is the first U.S. carrier to qualify for "cargo hub status"  
in China under provisions set forth in the U.S.-China Air  
Transport Agreement, amended by Protocol dated July 2004.  
According to UPS China Public Affairs Manager Liu Ran, under the  
bilateral agreement, cargo hub status will allow UPS much  
greater flexibility to manage its business, including unlimited  
frequencies and Seventh Freedom rights - the right to carry  
passengers or cargo between two foreign countries without  
continuing service to one's own country.

13. (U) In her remarks, the Secretary noted that the hub agreement demonstrated the benefits of the 2004 Air Transport Agreement between the U.S. and China and was an important milestone to meeting increasing demands for bilateral air cargo services that reached almost 400,000 tons in 2006. The Secretary said that UPS's new cargo hub status would bring

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greater flexibility to UPS operations in China and give China-based businesses better access to major centers around the world, thus demonstrating the benefits of liberalization of air services to support the growing bilateral trade relationship.

14. (U) Civil Aviation Administration of China (CAAC) East China Bureau Director General Xia Xinghui noted that the UPS cargo hub was an important step in assisting China in meeting its growing air cargo demands and consistent with China's goal of promoting Shanghai as an international and regional air services center. He said that UPS's agreement with SAA was China's second such cargo-hub agreement with a U.S. express service company; Federal Express had opened cargo hubs in Guangzhou and Hangzhou. (Note: UPS's Liu Ran later clarified that UPS was the first U.S. airline to meet the criteria of the 2004 Air Agreement to qualify for cargo hub status, including having 72 movements per week. While FedEx had expressed its intent to establish a hub in Guangzhou, it did not expect to qualify until 2009. FedEx's "hub" in Hangzhou was actually a domestic hub of Chinese airline Okay Airline, with which FedEx had a commercial license. End note.)

15. (U) Xia added that China was now the world's second largest aviation market in terms of turnover, after the United States, although he acknowledged it was a distant second, accounting for about 12 percent of the market, compared to the 60 percent accounted for by the United States. East China was now responsible for 32 percent of China's passenger traffic and 51 percent of its cargo. With more than 2.15 million tons handled

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in 2006, PVG was now the world's sixth busiest cargo airport.

16. (U) Shanghai Vice Mayor Yang Xiong thanked CAAC for its support of the Shanghai Municipal Government's efforts to promote Shanghai as an international transportation center. Last year's rapid growth in air passenger led to 490,000 take-offs and landings with over 46.2 million passengers and 2.53 million tons of cargo delivered at Shanghai's PVG and Hongqiao airports.

He noted that the expansion at PVG would be completed by December and would boost its capacity to 60 million passengers and 4.2 million tons in cargo per year. Yang said that other international freight and shipping companies should consider Shanghai as their regional cargo hub and that this type of international business benefited Chinese freight and shipping companies as well. Yang pledged that Shanghai would "make full efforts" to insure the success of its regional air hub and to promote passenger and cargo growth.

17. (U) UPS President for Asia-Pacific Ken Torok thanked SAA, CAAC, the Shanghai Municipal Government, DOT and the State Department on behalf of UPS's 400,000 employees worldwide. He said that UPS had been doing business in China since 1988 and had invested USD 600 million to become China's first wholly-owned foreign express carrier. UPS currently had 76 total take-offs and landings per week at its Pudong facility and employed 200 people. When its hub expansion project was completed in 2012, its Pudong workforce would grow to 1,000 employees and be able to sort 17,000 pieces per hour. UPS would move to 24/7 processing, expanding its fleet to incorporate more Boeing 747-400s in addition to its current fleet of mostly Boeing MD-11s. At a later tour of the facility, Torok told the Secretary that UPS had a total of 4500 staff in China and 1,200

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delivery vehicles. The cargo hub facility would break ground in August 2007 and, it was hoped, be operational in time for the August 2008 Beijing Olympics. The Shanghai Aviation

Administration (SAA) would construct the facilities and lease them to UPS. UPS's current facility was 5,000 square meters; its new hub would cover 96,000 square meters.

18. (U) The DOT delegation cleared on this cable.  
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